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TREASURY FOR MMALLOY AND MEWENS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EFIS](#) [SENV](#) [EC](#)
SUBJECT: ECUADOR ECON WEEKLY: ENERGY BILL, ENERGY EMERGENCY,
ARBITRATION LAWYERS, AND INFLATION.

REF. A: Quito 1424

B: QUITO 1794

¶1. (U) The following is a weekly Ecuador economic update that reports notable developments that are not reported by individual cables.

Congress Approves Energy Sovereignty Bill:

¶2. (SBU) After rejecting the administration's initial energy sovereignty bill (reftel a), Congress approved a revised version August 9 after intense debate. The purpose of the bill is to penalize traffickers of contraband petroleum derivatives. The first version of the bill proposed extremely severe penalties and explicitly denied recourse to an administrative injunction, which industry and Congress rejected. The second version introduced by the Correa administration allowed recourse to an injunction and all constitutional rights, and reduced the penalties somewhat (although they remained stiff). Congress further reduced penalties before approving the bill. President Correa must review the law and provide any partial vetoes within 10 days.

Energy Emergency; Petroecuador to Receive \$358 Million:

¶3. (U) President Rafael Correa declared a state of emergency in the country's energy sector. The emergency decree allows state oil company Petroecuador to provide subsidized fuel to thermal electricity generators with a 90-day credit of \$133 million, to be repaid by the Ministry of Economy, and allows the government to draw on the Feiseh petroleum reserve fund. Feiseh will give Petroecuador \$358 million that will be used to purchase equipment and materials, and for work on two Petroecuador projects - a natural gas terminal and restoration of the aging Esmeraldas refinery. (Feiseh receives its revenues from petroleum sales from the former Occidental fields that were seized by the government in 2006.)

GOE Seeks Defense Lawyers for Arbitration Cases:

¶4. (U) The GOE has until September 15 to present its arguments that the International Centre for Settlement of Investment Disputes (ICSID) should not have jurisdiction in the Oxy arbitration case. However, the attorney general's office has apparently not yet hired a new lawyer to represent the state in its arbitration cases. The attorney general's office began reviewing bids from three interested law firms August 6.

Inflation:

15. (U) Ecuador's National Institute of Statistics and Census (INEC) reported that inflation increased in July (up to 0.42% from 0.39% in June). This increase was mainly due to price increases for basic consumption products (reftel b), whose prices increased 2.99% versus an average of 0.15% for all other products. Even so, the annual inflation rate remains lower than for the preceding year. Inflation for July 2006 to July 2007 was 2.58%, while the rate for July 2005 to July 2006 was 2.99%.

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